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SUBJECT: Mining in Mindanao: Not Meeting Its Potential

REF: A) Manila 1610 B) Manila 1790, C) Manila 1677

11. (SBU) Summary: The mining sector holds great promise for the economic development of Mindanao. However, reputable mining companies currently operating in this region face many challenges, including lawlessness, insurgent violence, encroachments by small-scale miners, populist resistance, corrupt local officials, and banditry. Working with, rather than around, local interest groups would do much towards reducing violence and increasing the industry's ability to contribute to the prosperity of Mindanao and peace in the region. This is one in a series of cables on the economic challenges of Mindanao, a region often associated with poverty and instability (Ref A). End Summary.

Large-scale is Better

12. (SBU) While the Philippines as a whole is rich in mineral resources, Mindanao is particularly well-endowed with 46% of the country's chromite deposits, 41% of its nickel, 34% of its gold, and 29% of its copper. However, extracting these reserves in a way acceptable to the people of the region has proven difficult. The mining sector's greatest potential contribution to Mindanao's development lies in its ability to attract large-scale mining firms, many of which are foreign. Only these firms have the technical and financial capacity to undertake mining operations that benefit host communities in an environmentally and socially responsible way. These large-scale mining firms secure permits from the national government, which requires them to obtain environmental impact statements, commitments to required labor standards, and detailed operational plans before work can begin. However, these permits do not address the other challenges that these mining firms will face once in Mindanao.

Encroachment

13. (SBU) One of the most significant challenges facing large-scale mining operations is dealing with the current residents of the lands to which they have obtained mineral rights. These residents could be squatters who are recent arrivals seeking to exploit mineral riches for their own gain without permission from Manila, or they could be indigenous people with ancestral, albeit unrecognized by the legal system, claims to the mineral-rich areas. The absence of clear, uncontested land titles in Mindanao has made it almost impossible to clearly distinguish between the two groups. In some cases, squatters and/or indigenous people may even be working for local political or commercial power brokers intent on exploiting

mineral deposits for their own gain.

¶4. (SBU) Squatters often occupy mineral-rich lands before the lands are contracted to large-scale mining firms, extracting minerals without the permission or knowledge of the national government. Small-scale mining, as is done by squatters and indigenous folk alike, is generally not subject to environmental regulation and uses methods that result in greater environmental damage, dangerous working conditions, and relatively inefficient mineral production. Yet, local power brokers may prefer these small-scale operators because they are easier to squeeze for a share of the earnings.

¶5. (SBU) Different regulatory treatment between large and small-scale miners is a problem as well. Small-scale miners pay local, not national, taxes. Large-scale miners pay royalties and taxes to the national government, which then, in theory, returns 40% to the local government unit responsible for the mining area in question. Such transfers are reportedly often delayed or conveniently forgotten. As a result, local officials have additional strong incentives to favor small-scale miners at the expense of large-scale miners. According to Embassy contacts in the mining industry, local officials often collude with small-scale miners and ignore their presence on lands contracted to large-scale companies.

¶6. (SBU) Near Canadian-owned TVI Pacific's mine in the Zamboanga Peninsula of Western Mindanao, small-scale miners have banded together to exploit the richest gold and silver reserves of TVI's exploration area. Furthermore, local government officials have attempted to undermine TVI's contract with the national government by declaring the area in question a "people's mining area," open only to small-scale miners.

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Popular Resistance

¶7. (SBU) Large-scale miners also face resistance from local Catholic Church leaders, leftist politicians, insurgent groups, and sometimes the broader population. Catholic bishops in Mindanao recently reiterated their opposition to all large-scale mining on the grounds that "mining can never be sustainable." The influence of the Catholic Church on Filipino culture magnifies these views among the broader population. Environmental damage at mining operations in the late 1990s drives much of this negative sentiment to this day. Some bishops in South Cotabato Province of southern Mindanao have called for a provincial ban on all open-pit mining, which would close the national government-approved Swiss and Australian-owned Tampakan project in one of the world's largest gold and copper areas.

¶8. (U) Insurgent elements, such as the Moro Islamic Liberation Front (MILF), also oppose large-scale mining because they feel that the Moro (read Muslim) people pay all the costs in terms of environmental damage and social disruption, but receive none of the benefits. In a press release recently published on its website "Luwaran", the MILF said, "Spare the remaining natural resources for our people and not for the benefits of those huge multinational companies and their local contacts whose interests do not necessarily jibe with the masses of our people."

Banditry

¶9. (SBU) Insurgent groups, such as the MILF, the New People's Army, and others, run banditry operations near mining concessions. Since law enforcement in rural areas of Mindanao is spotty, both large and small-scale miners frequently operate under "protection rackets." Miners privately admit to paying fees or "revolutionary taxes" to bandit groups on a regular basis to avoid trouble, or even for protection. The Filipino owner of a gravel mine in a conflict-affected area near Iligan City told Embassy officers that every truckload of gravel that leaves his mine is forced to stop and pay an unofficial tax.

¶10. (U) One company that did not succumb to this extortion was Apex Mines, partly owned by UK-based Crew Gold Corporation. Apex operates a gold mine in the Compostela Valley of southern Mindanao. In March 2008, members of the New People's Army (NPA) disarmed the mine's guards and set fire to buildings and mining equipment. The local police chief attributed the attack to the company's unwillingness to pay the extortion money demanded. This was the third time NPA rebels had attacked the mine, burning mining equipment each time.

¶11. (SBU) Revolutionary taxes and small-scale mining at Mount Diwalwal, one of the country's largest gold fields, allegedly fund NPA operations in the area. Rivalry among small-scale miners and among local politicians at the site has caused two decades of continuing conflict, leaving hundreds dead. Unsustainable mining on the mountain left the area at risk for massive landslides as well. Between the political instability and environmental damage at the mountain, few reputable companies are willing to risk developing its gold reserves. In April 2008, the Philippine Supreme Court ruled in favor of an agreement between the national government and the ZTE Company of China that granted exclusive mining rights in the Diwalwal fields to ZTE. However, local officials have told Embassy officers that the agreement will be impossible to implement because locals, including themselves, do not support it.

¶12. (SBU) Comment: Development of mining in Mindanao also suffers from the same problems as it does in the rest of the Philippines (reported in ref C). However, the greater level of violence and the less effective governance and rule of law in Mindanao makes these problems more serious there. The potential of the mineral sector to truly contribute to economic development in the region will only be reached if violence is curbed, rule of law becomes effective, environmental regulations are effectively implemented, and public confidence in mining and in the government's environmental protection efforts are restored. Given these enormous obstacles,

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post does not plan on prioritizing mining in its policy reform efforts until at least the security situation in Mindanao improves.
End Comment.

KENNEY